QUESTION.

Is GDP a good measure of economic well-being? Why or why not?

ANSWER.

GDP is not a good measure of economic well-being.

In order to understand this we have to look at the definition of GDP:

GDP is the market value of all final goods and services produced within a country during a certain period of time.

From this definition we may see that real GDP is a measure of production in a market economy and it is not a measure of our well-being. GDP is able to represent the aggregate output of a nation's economy annually. But while GDP show how much a nation is producing it doesn't measure the situation and the economic condition of the people that really matters. GDP does not take into account the standards of living for individual citizens and says nothing about individual's well-being, education, health, ecological situation, etc. These factors should be included in the measure of well-being because the well-being of an individual's life is represented not only by materialistic things.

Even if to speak about the measure of production in a market economy by taking apart the definition, we can understand what is counted and what is not counted in GDP. For instance, GDP doesn`t include good and services produces and consumed in households; good and services sold in the black market; goods produced by citizens outside the country; intermediary goods; goods produced in past periods (even if it is resold this period).

That’s why economists use other measures alongside the GDP such as the GNP, national income and so on to cover for the flaws of the GDP.